

Message Text

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SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC):
REVIEW OF GREECE, JUNE 9

REF: PARIS 17810

1. RE QUESTIONS RAISED IN PARA 6 REFTEL, DOROTHY BLACK WILL
BE PLEASED TO PROVIDE EMBASSY ATHENS COMMENT ON SECRETARIAT'S
ANALYSIS OF EXCHANGE RATE LEVEL. OUR VIEW ON THE EFFECTIVENESS
OF CONSENSUS-TYPE WAGE-PRICE AGREEMENTS IN GREECE FOLLOW.

2. THE OECD SECRETARIAT CORRECTLY NOTES THAT INFLATION IN
GREECE IS FUELED BY MANY SOURCES: EXCESSIVE CREDIT EXPANSION,
LARGE PUBLIC SECTOR BUDGET DEFICITS, BOOMING CONSUMER DEMAND
AND FALTERING INDUSTRIAL PRODUCTION, ABOVE-TARGET MONETARY
GROWTH, EXTERNAL FACTORS AND, OF COURSE, CONTINUED HIGH WAGE
SETTLEMENTS. WE KNOW FROM GOG POLICY MAKERS THAT THE GOVERNMENT
LARGELY SHARES THE SECRETARIAT'S ANALYSIS OF THE SITUATION
AND ITS BELIEF IN THE HIGH PRIORITY THE MATTER SHOULD COMMAND
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IN GOVERNMENT ECONOMIC POLICY.

3. THE HISTORY OF CONSENSUS-TYPE WAGE-PRICE AGREEMENTS IN
GREECE, HOWEVER, NEITHER GOES BACK VERY FAR NOR IS VERY EN-
COURAGING. ALTHOUGH THE CONSTITUTION PROVIDES FOR COLLECTIVE
BARGAINING AGREEMENTS CONTRACTED ON THE BASIS OF FREE NEGOTIATIONS
AND RESORT TO ARBITRATION SHOULD NEGOTIATIONS FAIL, IT WAS

REALLY ONLY LAST YEAR THAT THE GOG APPEARED TO MAKE A DETERMINED EFFORT TO ESTABLISH ANYTHING LIKE A COMPREHENSIVE INCOMES POLICY BY 1) INITIATING A "UNIFORM PAYROLL SYSTEM" TO DETERMINE SALARY INCREASES FOR THOSE ON ITS OWN ROLLS; 2) SEEKING TO RESTRAIN WAGE SETTLEMENTS FOR THE GENERALLY BETTER-PAID WHITE-COLLAR EMPLOYEES IN GOVERNMENT-CONTROLLED PUBLIC UTILITIES AND BANKS; AND 3) URGING MODERATION IN THE NATIONAL GENERAL COLLECTIVE BARGAINING NEGOTIATIONS WHICH SET THE BASIS MINIMUM WAGE FOR UNSKILLED WORKERS AND ESTABLISHED A BENCHMARK FOR SUBSEQUENT NEGOTIATIONS BETWEEN MANAGEMENT AND LABOR IN THE PRIVATE SECTOR. THE RESULTS OF THESE GOVERNMENT EFFORTS HAVE BEEN MIXED AT BEST: WAGE INCREASES OF 24-32 PERCENT WERE GRANTED TO CIVIL SERVANTS FOR THE TWO-YEAR, RPT TWO-YEAR PERIOD 1978-1979; PUBLIC UTILITY AND BANK EMPLOYEES RECEIVED INCREASES OF 8-15 PERCENT; AND A 22 PERCENT INCREASE WAS AGREED FOR MINIMUM SALARIES.

4. MUCH PUBLIC ATTENTION IS BEING DIRECTED TO THE RECENTLY ESTABLISHED SOCIAL AND ECONOMIC COUNCIL WHICH WILL MEET FOR THE FIRST TIME ON JUNE 20 UNDER THE CHAIRMANSHIP OF PRIME MINISTER CARAMANLIS. THE COUNCIL WILL PROVIDE A FORUM IN WHICH GOVERNMENT, INDUSTRY AND LABOR WILL EXCHANGE VIEWS ON ECONOMIC AND SOCIAL POLICY MATTERS; AND IT IS REGARDED BY COORDINATION MINISTER MITSOTAKIS AS A CONSTRUCTIVE FIRST STEP TOWARD THE ESTABLISHMENT OF A NATIONAL SYSTEM OF SOCIAL COOPERATION WHICH HE DEEMS IMPORTANT IN GAINING A NATIONAL CONSENSUS IN THE FIGHT AGAINST LIMITED OFFICIAL USE

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INFLATION.

5. IN SUM, VIRTUALLY ALL GOVERNMENT ECONOMIC POLICY MAKERS APPEAR TO AGREE ON THE NEED TO MODERATE PRICE AND WAGE INCREASES THROUGH A SOCIAL COMPACT AMONG ALL CLASSES OF THE POPULATION, INCREASED PRODUCTION AND PRODUCTIVITY AND MORE EFFECTIVE LONG-TERM ECONOMIC PLANNING. STRONG ANTI-INFLATIONARY POLICIES, HOWEVER, MAY BE DIFFICULT TO IMPLEMENT IN VIEW OF ENDEMIC INFLATIONARY EXPECTATIONS, AN EXPANSIONARY GROWTH POLICY AND A STRONG DOMESTIC POLITICAL OPPOSITION WHICH URGES HIGHER WAGE SETTLEMENTS. MOREOVER, UNLESS WAGE EARNERS PERCEIVE SOME FAVORABLE DECELERATION IN RATE OF CONSUMER PRICE INCREASES DURING THE SECOND HALF OF THIS YEAR, IT IS HIGHLY UNLIKELY THAT LABOR WOULD AGREE TO OECD SECRETARIAT'S URGINGS TO ACCEPT HALF THE RATE OF NOMINAL PAY INCREASES ACHIEVED IN RECENT YEARS FOR THE PERIOD OF THE NEXT COLLECTIVE AGREEMENT. MCCLOSKEY

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